REVENUE ESTIMATES

California's economy and revenues are assumed to continue growing throughout the forecast, although risks are rising. The General Fund revenue forecast has improved relative to the 2018 Budget Act, reflecting a larger share of wages going to high-income taxpayers and a stock market that, until recently, had been stronger than expected. As a result, before accounting for transfers such as to the Rainy Day Fund, General Fund revenue is higher than the 2018 Budget Act projections by $8.1 billion from 2017-18 through 2019-20.

Figure REV-01 compares the revenue forecasts, by source, in the 2018 Budget Act and the Governor's Budget. Revenue, including transfers, is expected to be $137 billion in 2018-19 and $143 billion in 2019-20. The projected increase since the 2018 Budget Act is due largely to an improved outlook for personal income tax. The sales tax forecast has been revised down. The corporation tax is up but the improvement is seen as one-time and not ongoing. Over the three fiscal years, personal income tax is up $7.5 billion, sales tax is down $1.4 billion, and corporation tax is up $1.3 billion. However, accruals of revenues to previous years for corporation tax reduce the 2017-18 beginning balance by an offsetting $427 million.

The improved revenue forecast for personal income tax is driven by strong wage withholding and capital gains. Because wage growth is not keeping up with the growth in withholding, it appears that much of the wage growth is accruing to higher-income taxpayers, who have higher marginal tax rates. The stock market was higher than forecast for much of the period between the Budget Act forecast and this forecast. However, the market was extremely volatile late in the year. Realized capital gains are

Figure REV-01

2019-20 Governor's Budget
General Fund Revenue Forecast
Reconciliation with the 2018 Budget Act

(Dollars in Millions)

Source	2018 Budget Act	Governor's Budget	Change From Budget Act Forecast	
Fiscal 2017-18: Preliminary				
Personal Income Tax	$91,971	$94,272	$2,301	2.5%
Sales & Use Tax	25,384	25,006	-378	-1.5%
Corporation Tax	11,246	12,156	909	8.1%
Insurance Tax	2,514	2,569	55	2.2%
Alcoholic Beverage	371	376	5	1.4%
Cigarette	67	65	-1	-1.9%
Pooled Money Interest	203	250	46	22.8%
Other Revenues	1,071	1,169	99	9.2%
Subtotal	$132,827	$135,864	$3,036	2.3%
Transfers[1/]	-3,002	-4,369	-1,367	45.5%
Total	**$129,825**	**$131,495**	**$1,670**	1.3%
Fiscal 2018-19				
Personal Income Tax	$95,011	$97,720	$2,708	2.9%
Sales & Use Tax	26,674	$26,244	-430	-1.6%
Corporation Tax	12,259	$12,330	71	0.6%
Insurance Tax	2,576	$2,606	31	1.2%
Alcoholic Beverage	377	$382	5	1.2%
Cigarette	65	$65	0	0.0%
Pooled Money Interest	374	$554	180	48.3%
Other Revenues	995	$1,088	93	9.3%
Subtotal	$138,330	$140,988	$2,658	1.9%
Transfers[1/]	-4,998	-4,042	956	-19.1%
Total	**$133,332**	**$136,945**	**$3,613**	2.7%
Fiscal 2019-20				
Personal Income Tax	$98,097	$100,547	$2,451	2.5%
Sales & Use Tax	27,990	27,424	-565	-2.0%
Corporation Tax	12,837	13,125	288	2.2%
Insurance Tax	2,787	2,830	43	1.5%
Alcoholic Beverage	384	389	5	1.2%
Cigarette	63	63	0	0.2%
Pooled Money Interest	571	655	83	14.6%
Other Revenues	940	1,079	139	14.8%
Subtotal	$143,669	$146,112	$2,443	1.7%
Transfers[1/]	-983	-3,494	-2,511	255.5%
Total	**$142,686**	**$142,618**	**-$68**	0.0%
Three-Year Total			**$5,216**	

Totals may not add because of rounding.

[1/] Includes transfers to Budget Stabilization Account for each year.

expected to be significantly higher for 2018 than at the Budget Act, but to only be slightly higher in 2019 and later years. The sales tax forecast has declined, as an expected surge of business investment from the federal tax cuts did not materialize. The improved corporation tax forecast reflects strong tax receipts, although this also reflects a change in the timing of payments.

Figure REV-02 shows revenue from capital gains as a percentage of total General Fund tax revenue. As seen from this table, the amount of capital gains revenue in the General Fund can vary greatly from year to year. For instance, in 2007, capital gains contributed $10.9 billion to the General Fund. By 2009, the contribution from capital gains had dropped to $2.3 billion. For 2018, capital gains are forecast to contribute $15.7 billion to General Fund revenue—the highest amount ever.

Figure REV-02

Capital Gains Revenue
As a Percent of General Fund Tax Revenues
(Dollars in Billions)

Annual Values	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017[e/]	2018[e/]	2019[e/]
Capital Gains Realizations	$117.9	$132.0	$56.3	$28.8	$55.3	$52.1	$99.9	$79.9	$115.5	$120.1	$113.2	$141.5	$152.8	$137.6
Tax Revenues from Capital Gains	$9.6	$10.9	$4.6	$2.3	$4.7	$4.2	$10.4	$7.6	$11.3	$11.8	$11.5	$14.4	$15.7	$14.1
Fiscal Year Values	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20
Tax Revenues from Capital Gains	$10.0	$9.0	$3.9	$3.0	$4.5	$6.0	$9.6	$8.7	$11.4	$11.7	$12.4	$14.8	$15.2	$13.8
Total General Fund Tax Revenues[1/]	$95.4	$101.3	$81.7	$86.6	$92.0	$85.3	$97.6	$103.0	$113.8	$118.9	$122.1	$135.1	$140.2	$145.4
Capital Gains Percentage	10.5%	8.9%	4.7%	3.4%	4.9%	7.1%	9.8%	8.5%	10.1%	9.8%	10.2%	11.0%	10.8%	9.5%

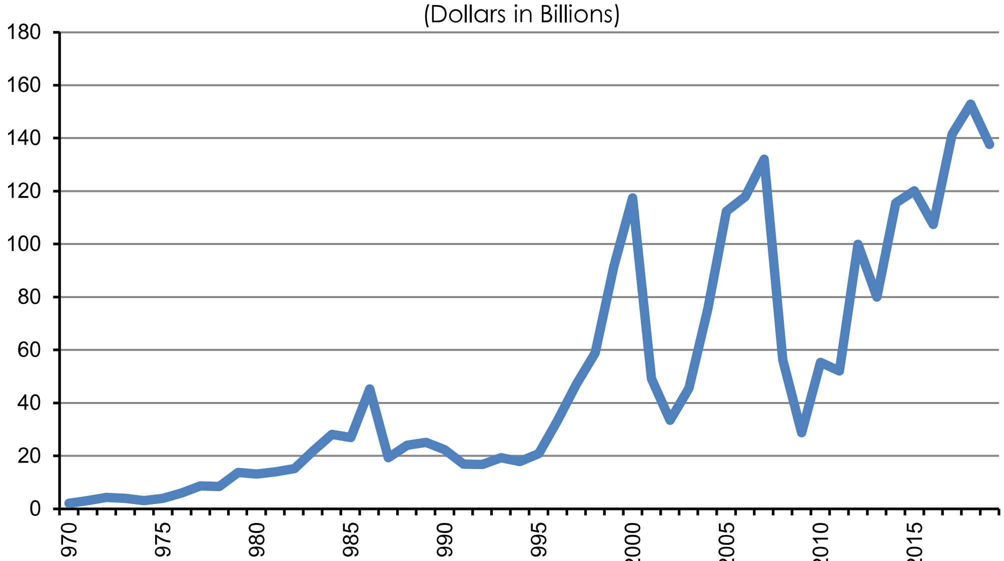
[1/]Excluding transfers.

[e/]Estimated

Figure REV-03 shows capital gains reported on California tax returns from 1970 through projections for 2019. Although the level of capital gains has grown significantly since 1970 (along with the economy and total personal income tax revenue), capital gains volatility has been a constant. History shows that high levels of capital gains eventually drop off.

Figure REV-03

Capital Gains Realizations
(Dollars in Billions)



Forecasting capital gains is difficult because capital gains realizations are heavily dependent upon stock market performance. This forecast assumes that the S&P 500 ended 2018 at 2,665 and will grow slowly for the next several years. While the stock market has outperformed the Budget Act forecast for much of the year, recent declines, which occurred subsequent to the completion of the Budget forecast, increase downside risks to the forecast. The forecast includes a significant increase in realized capital gains for 2018, but only limited improvement in 2019 and later years.

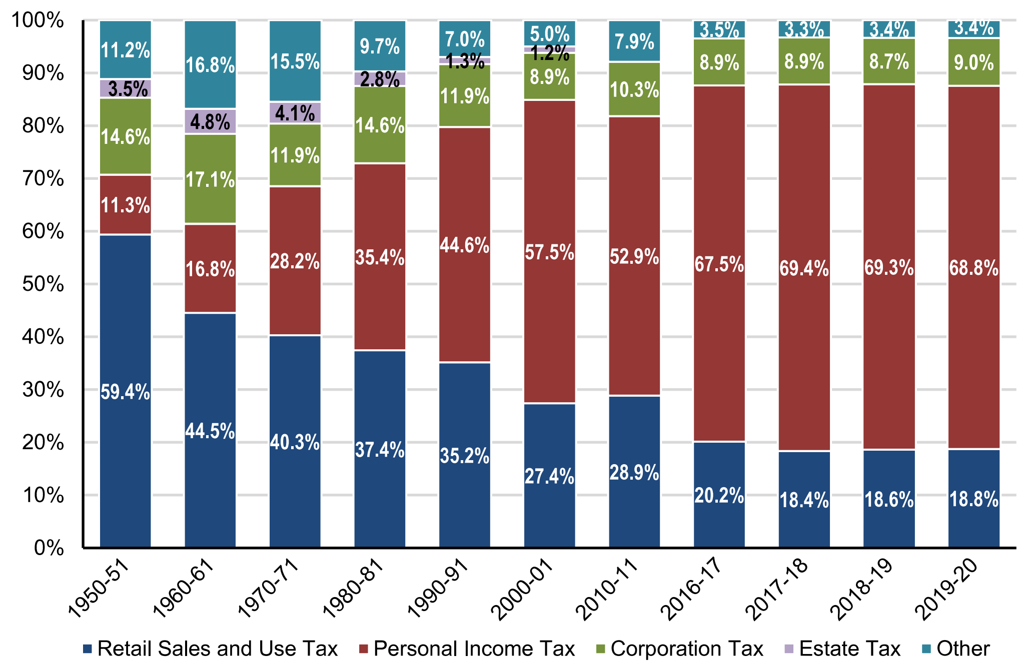
The highest-income Californians pay a large share of the state’s personal income tax. For the 2016 tax year, the top 1 percent of income earners paid just under 46 percent of personal income taxes. This percentage has been greater than 40 percent in 12 of the past 13 years. The share of total adjusted gross income from the top 1 percent of income earners has increased from 13.8 percent in 1993 to 23 percent in 2016. This number has exceeded 20 percent in 12 of the past 13 years. Consequently, changes in the income of a relatively small group of taxpayers can have a significant impact on state revenues.

These two related phenomena—significant reliance of the General Fund on capital gains and on taxes paid by a small portion of the population—underscore the difficulty of forecasting personal income tax revenue. The Rainy Day Fund helps address some of the state's revenue volatility. Under Proposition 2, when capital gains revenue is greater than 8 percent of General Fund tax revenue, that windfall revenue is used to pay off General Fund debts and build up a reserve for future downturns.

GENERAL FUND REVENUE

Figure REV-04 shows how the breakdown of General Fund revenues by tax source has changed over time. In 1950-51, sales tax revenue made up over 50 percent of General Fund revenues while personal income tax revenue made up just more than 11 percent. That relationship has changed dramatically over time, and, for 2019-20, personal income tax makes up 68.8 percent of all General Fund revenues.

Figure REV-04
California State Revenue By Source



LONG-TERM FORECAST

Figure REV-05 shows the forecast for the three largest General Fund revenues from 2017-18 through 2022-23. Total General Fund revenue from these sources is expected to grow from $131.4 billion in 2017-18 to $153.6 billion in 2022-23. The average year-over-year growth rate for this period is 3.2 percent.

The economic forecast reflects continued steady but slowing growth, with real GDP growth falling to 1.5 percent by 2023.

Figure REV-05

Long-Term Revenue Forecast - Three Largest Sources

(General Fund Revenue - Dollars in Billions)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Average Year-Over-Year Growth
Personal Income Tax	$94.3	$97.7	$100.5	$103.1	$106.0	$109.4	3.0%
Sales and Use Tax	25.0	26.2	27.4	28.2	29.0	29.8	3.5%
Corporation Tax	12.2	12.3	13.1	13.6	14.0	14.5	3.5%
Total	**$131.4**	**$136.3**	**$141.1**	**$145.0**	**$149.0**	**$153.6**	3.2%

Note: Numbers may not add due to rounding.

PLANNING FOR THE NEXT RECESSION

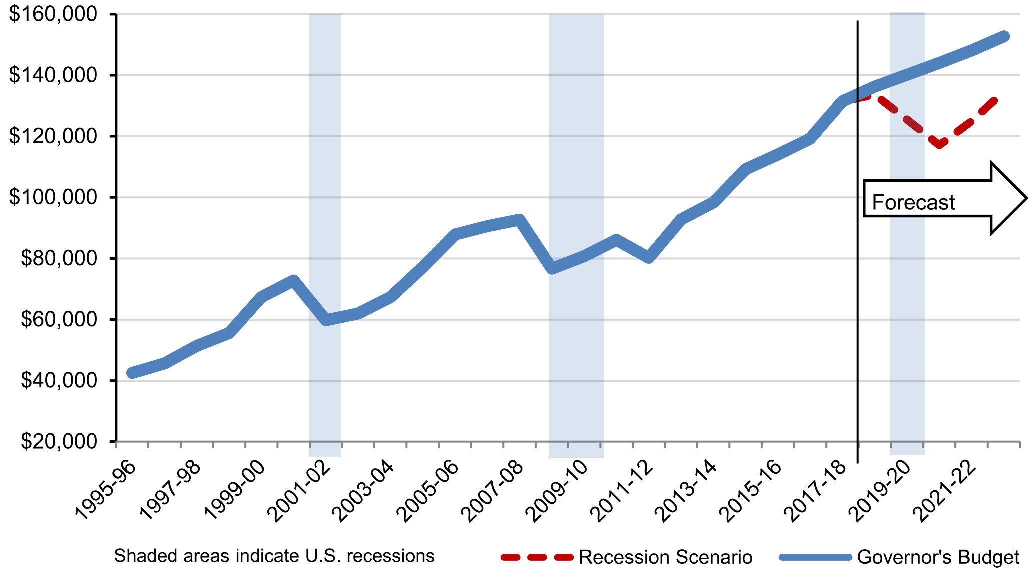
Economic growth is forecast to continue over the next few years, although the current expansion will be the longest on record if it continues through July 2019. As discussed in the Economic Outlook chapter, there are several economic risk factors that could either lead to a recession or cause a significant slowdown in revenue growth. Rising interest rates, rising inflation, continuing and intensified trade disputes, a global economic slowdown, and a loss of consumer confidence are all factors that threaten the continuation of economic growth. In addition, with high federal deficits and interest rates still below 3 percent, fiscal expansion and interest rate cuts may offer less leverage during a downturn. The homeownership rate fell from 60 percent before the last recession to 54 percent in 2017, leaving fewer Californians with home equity to cushion a recession. As more workers approach retirement age, layoffs may affect their ability to work and rebuild retirement savings. Since more Californians will have fewer reserves to deal with a downturn, it is likely that consumption, and thus sales tax revenue, would be more sensitive to a downturn than it was in the previous recession.

Even in a moderate recession, revenue declines could be significant. Figure REV-06 shows a history of California's three largest revenue sources—personal income tax, sales tax, and corporation tax—along with revenue projections for the budget forecast and a one-year recession in 2019-20. Under this scenario, revenue losses result from a decline in wages of about $120 billion compared to forecast (about 9 percent) and by a drop in capital gains realizations due to a 40-percent stock market correction. The shaded areas in this figure show the timing of the 2001 recession, the 2007 recession, and the 2019-20 recession scenario. While the actual revenue declines in the past two recessions were significant (as shown in this figure), tax law changes temporarily increased revenues to lessen the declines. Revenue losses in this recession forecast would total over $50 billion (an average of $25 billion per year) for two years, continue with more years of revenue declines in the range of $15 to $20 billion, and lead to a permanently lower revenue base compared to the current forecast.

Figure REV-06

Annual Revenue Could Drop by over $25 Billion in a Recession

(Dollars in Millions)



WORKING FAMILIES TAX CREDIT AND FEDERAL TAX CONFORMITY

The 2015 Budget enacted the state's first-ever Earned Income Tax Credit to help the lowest-income working families in California. The 2017 and 2018 Budgets expanded the credit to include the self-employed and working individuals who are age 18 to 24 or over age 65, and expanded the income range so more individuals working up to full-time at the 2019 minimum wage will still qualify. About $400 million in Earned Income Tax Credit is expected to be granted to 2 million households this year.

The Budget proposes to more than double the size of the current program. This new program for low-income Californians—the "Working Families Tax Credit"—includes an additional $500 credit for families with children under the age of 6. The proposal also increases the maximum eligible earned income so that workers working up to full-time at the 2022 minimum wage of $15 per hour will be eligible for the credit, and changes the phaseout formula so that taxpayers earning income at the upper end of the credit structure will receive significantly higher credit amounts. In addition, the Budget proposes to explore how to allow workers to receive a portion of their "Working Families Tax Credit" in monthly payments, as opposed to receiving the credit in one lump sum at the end of the year. These changes are expected to provide $600 million in additional benefits and to allow 400,000 additional families to benefit from the credit. In total, the expanded program is expected to provide $1 billion in credits to 2.4 million families.

To pay for this expanded program, the Administration proposes conformity to several federal tax law changes mainly impacting business income. In 2017, the federal government adopted sweeping changes to the tax code for corporations and individuals. It is important to consider federal law changes and how differences between California law and federal law may create unnecessary administrative burdens to both taxpayers and the Franchise Tax Board. Differences between federal and state systems can be especially difficult for individuals and small businesses. The Budget proposes conformity to several key provisions that on either administrative burden or policy grounds are clearly beneficial to California. These provisions include flexibility for small businesses; capital gains deferrals and exclusions for Opportunity Zones; and limitations on fringe benefit deductions, like-kind exchanges, and losses for non-corporate taxpayers; among others. These conformity provisions are expected to generate $1 billion in 2019-20.

PERSONAL INCOME TAX

The personal income tax is expected to generate $94.3 billion in 2017-18, $97.7 billion in 2018-19, and $100.5 billion in 2019-20. These figures reflect increases of $2.3 billion in 2017-18, $2.7 billion in 2018-19, and $2.5 billion in 2019-20. The personal income tax is the state’s largest revenue source and is expected to comprise 68.8 percent of all General Fund revenues in 2019-20.

Modeled closely on federal income tax law, California's personal income tax is imposed on net taxable income—gross income less exclusions and deductions. The tax rate structure is progressive over the income spectrum. Since the 2012 tax year, the marginal rates ranged from 1 percent to 12.3 percent, not including a 1-percent surcharge on taxable income above $1 million for the Mental Health Services tax. Proposition 30 created three additional income tax brackets beginning in 2012 with rates of 10.3 percent for taxable income above $500,000, 11.3 percent for taxable income above $600,000, and 12.3 percent for taxable income above $1 million, with the income thresholds indexed for inflation. Proposition 30 held these tax brackets in effect for seven years—tax years 2012 to 2018. Voters approved Proposition 55 in November 2016, extending the three additional tax brackets through tax year 2030.

The largest income source for the personal income tax is wages and salaries. Although the year-over-year growth rate for wages tends to be less volatile than other income sources, wages and salaries include some unpredictable types of compensation such as stock grants, restricted stock units, stock options, and bonus payments. In 2016, taxes attributable to wages and salaries accounted for nearly 59 percent of personal income tax revenues.

Withholding growth in 2018 was revised substantially higher from 6.6 percent to 9.3 percent based on stronger-than-expected withholding receipts since the Budget Act. However, the economic wage forecast only expects wages and salaries to increase by 5.8 percent in 2018. The discrepancy between withholding growth and economic wage growth indicates that a higher proportion of the wage gains in 2018 accrued to higher-income earners who pay higher tax rates, similar to what occurred in 2017. The forecast assumes that wage growth in 2019 and subsequent years is distributed evenly among lower- and higher-income earners. Therefore, withholding growth was revised higher in 2019 from 4.1 percent to 5 percent and in 2020 from 3.6 percent to 4.4 percent based on comparable upward revisions in the economic wage forecast.

CAPITAL GAINS

Capital gains in 2017 were revised higher since the Budget Act forecast from $135 billion to $142 billion based on stronger-than-expected cash receipts and partial-year tax data. This forecast assumed that the S&P 500 ended 2018 at 2,665 and will grow annually at approximately 1 percent, which is very near Budget Act projections. However, the stock market was higher than the Budget Act forecast for much of 2018, resulting in capital gains revised significantly higher in 2018 from $140 billion to $153 billion and very modestly higher in 2019 from $134 billion to $138 billion. Similar to the Budget Act, capital gains decline from their peak levels in 2018 to reach 4.5 percent of personal income by 2021, as the very slow growth expected from the stock market due to its current high valuation results in year-over-year declines in capital gains realizations. Capital gains are assumed to grow in line with personal income beginning in 2022.

A portion of personal income tax revenue is deposited into a special fund instead of the General Fund. Proposition 63, passed in November 2004, imposes a surcharge of 1 percent on taxable income over $1 million. Revenue from the surcharge is transferred to the Mental Health Services Fund and used to fund mental health programs. Revenues of $2.1 billion are estimated for 2017-18. Annual revenues of $2.4 billion for 2018-19 and $2.4 billion for 2019-20 are projected. The General Fund and the Mental

Health Services Fund shares of personal income tax revenues for 2017-18 through 2019-20 are shown in Figure REV-07.

Figure REV-07

Personal Income Tax Revenue

(Dollars in Thousands)

	2017-18 Preliminary	2018-19 Forecast	2019-20 Forecast
General Fund	$94,271,687	$97,719,594	$100,547,481
Mental Health Services Fund	2,089,434	2,388,754	2,368,174
Total	**$96,361,121**	**$100,108,348**	**$102,915,655**

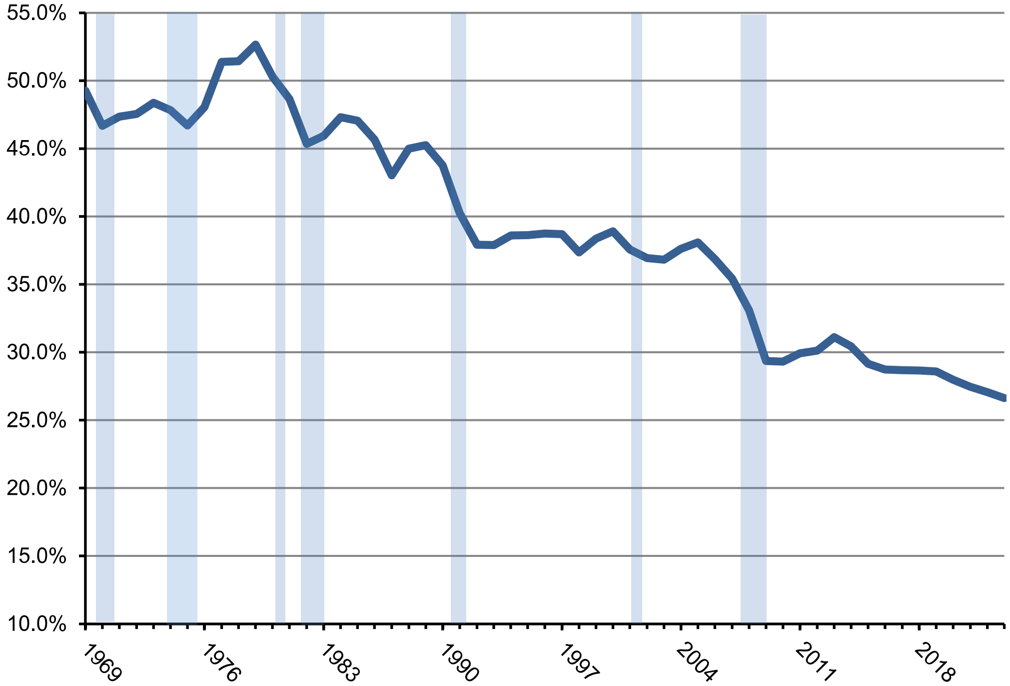
SALES AND USE TAX

The sales and use tax (sales tax) generated General Fund revenue of $25 billion in 2017-18 and is expected to generate $26.2 billion in 2018-19 and $27.4 billion in 2019-20. Relative to the Budget Act, these figures reflect a reduction of $378 million in 2017-18, $430 million in 2018-19, and $565 million in 2019-20. Receipts from the sales tax, the state's second largest revenue source, are expected to contribute 18.8 percent of all General Fund revenues in 2019-20.

The sales tax is generally applied to the sale of merchandise, including vehicles, in the state. Sales tax revenues are forecast by relating taxable sales to consumption of goods and business investment. The downward revision to the forecast since the Budget Act is largely because the expected surge in business investment from the federal tax changes that allowed immediate and full expensing of capital equipment did not materialize in 2018. The forecast also reflects the continued and growing pressure put on the budgets of many California households facing high housing costs. Finally, the forecast continues to reflect the long-term trend of deterioration of the sales tax base. This deterioration is evidenced by taxable sales as a percentage of personal income declining from over 50 percent in the late 1970s to 28 percent today as shown in Figure REV-08.

Figure REV-08

Taxable Sales as Percent of Personal Income



Shaded areas indicate U.S. recessions.

Figure REV-09 displays total sales tax revenues for the General Fund and various special funds for 2017-18 through 2019-20.

Figure REV-09
State Sales Tax Revenue
(Dollars in Thousands)

	2017-18 Preliminary	2018-19 Actual	2019-20 Forecast
General Fund	$25,005,999	$26,243,592	$27,424,464
Sales and Use Tax-1991 Realignment	3,493,738	3,703,220	3,875,010
Sales and Use Tax-2011 Realignment	6,956,827	7,337,903	7,681,886
Public Transportation Account	712,895	944,575	1,069,896
Total	**$36,169,459**	**$38,229,290**	**$40,051,255**

Figure REV-10 displays the individual elements of the state and local sales tax rates.

Figure REV-10
State and Local Sales and Use Tax Rates (as of January 1, 2019)

State Rates		
General Fund	3.94%	The permanent rate of 3.94% may be temporarily reduced by 0.25% if General Fund operating reserves exceed specified levels.
Local Revenue Fund 2011	1.06%	Revenues attributable to a rate of 1.0625 percent are dedicated to the Local Revenue Fund 2011 for realigned programs.
Local Revenue Fund	0.50%	Dedicated to local governments to fund health and social services programs transferred to counties as part of 1991 state-local realignment.
Local Uniform Rates[1/]		
Bradley-Burns	1.00%	Imposed by city and county ordinance for general purpose use.[2/]
Transportation Rate	0.25%	Dedicated for county transportation purposes.
Local Public Safety Fund	0.50%	Dedicated to cities and counties for public safety purposes by Proposition 172.
Local Add-on Rates[3/]		
Transactions and Use Taxes	up to 2.00%	May be levied in 0.125% or 0.25% increments up to a combined maximum of 2.00% in any county.[4/] Any ordinance authorizing a transactions and use tax requires approval by the local governing board and local voters.

[1/]These locally imposed taxes are collected by the state for each county and city and are not included in the state's revenue totals.

[2/]The city tax constitutes a credit against the county tax. The combined rate is never more than 1 percent in any area.

[3/]These taxes may be imposed by voters in cities, counties, or special districts. The revenues are collected by the state for each jurisdiction and are not included in the state's revenue totals.

[4/]Various jurisdictions are authorized in statute to have a higher cap than 2.00 percent.

Figure REV-11 shows combined state and local tax rates for each county, including special rates for certain cities within those counties.

Figure REV-11

Combined State and Local Sales and Use Tax Rates by County

(*city rate provided if different from the county rate*)

Rates in Effect on October 1, 2018

County	Tax Rate	County	Tax Rate	County	Tax Rate
Alameda	9.25%	**Mariposa**	7.75%	**San Luis Obispo**	7.25%
Albany, Hayward, Newark,	9.75%	**Mendocino**	7.375%	Arroyo Grande, Atascadero,	7.75%
San Leandro,		Point Arena, Willits	7.875%	Grover Beach, Morro Bay,	
Union City		Ukiah, Fort Bragg	8.375%	Paso Robles, Pismo Beach,	
Alpine	7.25%	**Merced**	7.75%	San Luis Obispo	
Amador	7.75%	Atwater, Gustine	8.25%	**San Mateo**	8.75%
Butte	7.25%	Los Banos, Merced		San Mateo, Burlingame	9.00%
Paradise	7.75%	**Modoc**	7.25%	South San Francisco,	9.25%
Calaveras	7.25%	**Mono**	7.25%	East Palo Alto, Belmont	
Colusa	7.25%	Mammoth Lakes	7.75%	**Santa Barbara**	7.75%
Williams	7.75%	**Monterey**	7.750%	Guadalupe, Santa Maria	8.00%
Contra Costa	8.25%	Gonzales, King City	8.250%	**Santa Clara**	9.00%
Antioch, Concord, Hercules,	8.75%	Carmel-by-the-Sea, Marina,	8.750%	Campbell, San Jose	9.25%
Hercules, Orinda,		Monterey, Pacific Grove,		**Santa Cruz**	8.50%
Pittsburg, Martinez,		Sand City, Soledad		Capitola, Scotts Valley	9.00%
San Pablo, Pleasant Hill		Del Rey Oaks, Salinas,	9.250%	Watsonville, Santa Cruz	9.25%
Moraga, Pinole, Richmond	9.25%	Seaside		**Shasta**	7.25%
El Cerrito	9.75%	Greenfield	9.50%	Anderson	7.75%
Del Norte	7.50%	**Napa**	7.75%	**Sierra**	7.25%
El Dorado	7.25%	St. Helena	8.25%	**Siskiyou**	7.25%
South Lake Tahoe	7.75%	**Nevada**	7.50%	Mount Shasta, Weed	7.50%
Placerville	8.25%	Truckee	8.25%	Dunsmuir, Yreka	7.75%
Fresno	7.975%	Nevada City	8.38%	**Solano**	7.375%
Reedley, Selma	8.475%	Grass Valley	8.50%	Rio Vista, Vacaville	8.125%
Sanger	8.725%	**Orange**	7.75%	Benecia, Fairfield,	8.375%
Kingsburg, Huron	8.975%	La Habra	8.25%	Vallejo, Suisun City	
Glenn	7.25%	Stanton, La Palma,	8.75%	**Sonoma**	8.125%
Orland	7.75%	Fountain Valley, Westminster		Healdsburg, Rohnert Park,	8.625%
Humboldt	7.75%	**Placer**	7.25%	Santa Rosa, Sonoma	
Arcata, Eureka, Fortuna	8.50%	Loomis	7.50%	Sebastopol	8.875%
Trinidad		**Plumas**	7.25%	Cotati	9.125%
Rio Dell	8.75%	**Riverside**	7.75%	**Stanislaus**	7.875%
Imperial	7.75%	Hemet, Indio, La Quinta,	8.75%	Ceres, Oakdale	8.375%
Calexico, El Centro	8.25%	Cathedral City, Coachella,		**Sutter**	7.25%
Inyo	7.75%	Temecula, Riverside		**Tehama**	7.25%
Kern	7.25%	Menifee		Red Bluff	7.50%
Ridgecrest, Wasco,	8.25%	Palm Springs	9.25%	Corning	7.75%
Arvin, Delano		**Sacramento**	7.75%	**Trinity**	7.25%
Kings	7.25%	Galt, Sacramento,	8.25%	**Tulare**	7.75%
Corcoran	8.25%	Rancho Cordova		Tulare, Porterville	8.25%
Lake	7.25%	Isleton	8.75%	Visalia, Dinuba	8.50%
Clearlake, Lakeport	8.75%	**San Benito**	7.25%	Lindsay, Farmersville,	8.75%
Lassen	7.25%	San Juan Bautista	8.00%	Woodlake	
Los Angeles	9.50%	Hollister	8.25%	**Tuolumne**	7.25%
Avalon, Commerce	10.00%	**San Bernardino**	7.75%	Sonora	7.75%
Culver City, El Monte,		Montclair, San Bernardino	8.00%	**Ventura**	7.25%
Inglewood, Downey,		Town of Yucca Valley	8.75%	Oxnard, Port Hueneme	7.75%
San Fernando,		**San Diego**	7.75%	Ventura	
South El Monte		El Cajon, Vista, Chula Vista	8.25%	Santa Paula	8.25%
Long Beach, Pico Rivera,	10.25%	La Mesa	8.50%	**Yolo**	7.25%
South Gate, Lynwood,		National City, Del Mar	8.75%	West Sacramento	8.00%
Santa Monica		Chula Vista		Woodland	
Madera	7.75%	**San Francisco**	8.50%	Davis	8.25%
City of Madera	8.25%	**San Joaquin**	7.75%	**Yuba**	7.25%
Marin	8.25%	Manteca, Tracy	8.25%	Wheatland	7.75%
Novato	8.50%	Lathrop	8.75%	Marysville	8.25%
San Anselmo,	8.75%	Stockton	9.00%		
Sausalito					
Corte Madera, Larkspur,	9.00%				
Fairfax, San Rafael					

Motor vehicle and parts dealers were the largest contributors to the sales tax base in the first three quarters of calendar year 2017, comprising around 13 percent of taxable sales. Food service sales has seen strong growth of 4.9 percent from the first three quarters of 2016 to the same period in 2017 and was the second-largest contributor to the sales tax base, with close to 12.4 percent. The third most significant contributor to the sales tax base is wholesale trade, which comprised 11.5 percent of the sales tax base.

Since July 1, 2010, the General Fund portion of the sales tax no longer applies to gasoline. Taxable sales, excluding gasoline, increased by 2.9 percent in 2016-17. Based on preliminary data, it is estimated that taxable sales increased by 4.8 percent in 2017-18. Growth is expected to increase to 5.5 percent in 2018-19 and 4.7 percent in 2019-20.

A General Fund sales tax exemption for manufacturing equipment commenced July 1, 2014. The sales tax exemption applies to purchases of manufacturing or biotechnology research and development equipment, valued at up to $200 million in qualifying purchases per business, per year. The revenue loss from the utilization of this exemption was $210 million in 2017-18, and is forecast to be $246 million in 2018-19 and $259 million in 2019-20. The exemption was expanded beginning in 2018 to include manufacturing equipment used in electric power generation and agricultural processing, accounting for an estimated additional revenue loss of $19 million in 2017-18 and $40 million in 2018-19.

The U.S. Supreme Court's ruling in *Wayfair v. South Dakota* in June 2018 allows states more authority to require out-of-state sellers to collect use tax. Previously, California individuals were responsible for reporting and paying use tax on out-of-state purchases. The California Department of Tax and Fee Administration has announced that it will require out-of-state retailers to collect and remit use tax beginning on April 1, 2019 if in the preceding or current calendar year their sales into California exceed $100,000 or 200 or more separate transactions. The *Wayfair* decision is expected to lead to increased use tax compliance resulting in an additional $219 million in tax revenue in 2018-19 and $554 million in 2019-20.

CORPORATION TAX

The corporation tax is expected to generate $12.2 billion in 2017-18, $12.3 billion in 2018-19, and $13.1 billion in 2019-20. These figures reflect increases of $909 million in 2017-18, $71 million in 2018-19, and $288 million in 2019-20. Corporation tax revenues are expected to contribute 9 percent of all General Fund revenues in 2019-20, down more than 5 percentage points from the share contributed in 1980-81. The revenue figures reflect increases of $162 million in 2018-19 and $119 million in 2019-20 due to the repatriation of foreign earnings.

INSURANCE TAX

Most insurance policies written in California are subject to a 2.35-percent gross premiums tax. This tax takes the place of all other state and local taxes on insurance companies except those on real property and motor vehicles. In general, the basis of the tax is the amount of "gross premiums" received, less returned premiums.
The insurance tax is expected to generate General Fund revenues of $2.6 billion in 2018-19 and $2.8 billion in 2019-20. These figures reflect an increase of $31 million in 2018-19 and $43 million in 2019-20.

ALCOHOLIC BEVERAGE TAXES

In addition to the sales tax paid by retail purchasers, California levies an excise tax on distributors of beer, wine, and distilled spirits. The tax rates per gallon are applied as follows: (1) $0.20 for beer, dry wine, and sweet wine; (2) $0.30 for sparkling wine; and (3) $3.30 for distilled spirits.

Alcoholic beverage revenue estimates are based on projections of total per capita consumption and population growth for each type of beverage. Overall, consumption of alcoholic beverages is expected to grow by about 1 percent in 2018-19 and 1.2 percent in 2019-20. Revenues from this tax were $376 million in 2017-18 and are forecast to be $382 million in 2018-19 and $389 million in 2019-20.

CANNABIS EXCISE TAXES

Proposition 64, commonly referred to as the Adult Use of Marijuana Act, levies new excise taxes on the cultivation and retail sale of both recreational and medical cannabis as of January 1, 2018. The cultivation tax is $9.25 per ounce of flower, $2.75 per ounce of leaves, and $1.29 per ounce of fresh cannabis plant to be paid on all recreational and medicinal cultivation of cannabis. In addition, there is a 15-percent tax on the retail price of cannabis. Cannabis excise taxes generated $84 million in 2017-18 and are expected to generate $355 million in 2018-19 and $514 million in 2019-20. (See Statewide Issues and Various Departments for additional discussion.)

CIGARETTE TAX

The California Healthcare, Research and Prevention Tobacco Tax Act of 2016 (Proposition 56), passed by the voters in November 2016, increased the excise tax rate on cigarettes, tobacco products, and electronic cigarettes. The excise tax increased by $2 from 87 cents to $2.87 per pack of 20 cigarettes on distributors selling cigarettes in California, effective April 1, 2017. The equivalent excise tax on the distribution of other tobacco products such as cigars, chewing tobacco, pipe tobacco, and snuff also increased by $2 from a $1.37-equivalent to a $3.37-equivalent tax, effective July 1, 2017. Lastly, Proposition 56 newly imposes the $3.37-equivalent tobacco products tax on electronic cigarettes. The $1.37-equivalent portion of that tax was imposed beginning April 1, 2017 while the additional $2-equivalent tax was imposed beginning July 1, 2017. The ad valorem excise tax rate on other tobacco products is calculated annually by the California Department of Tax and Fee Administration based on the wholesale price of cigarettes and the excise tax on cigarettes.

Revenues from the tax on cigarettes and other tobacco products are distributed as follows:

- Ten cents of the per-pack tax is allocated to the General Fund.
- Fifty cents of the per-pack tax, and an equivalent rate levied on non-cigarette tobacco products, goes to the California Children and Families First Trust Fund for distribution according to the provisions of Proposition 10 of 1998.
- Twenty-five cents of the per-pack tax, and a rate equivalent to 87 cents levied on non-cigarette tobacco products and electronic cigarettes, is allocated to the Cigarette and Tobacco Products Surtax Fund for distribution as determined by Proposition 99 of 1988.
- Two cents of the per-pack tax is deposited into the Breast Cancer Fund.
- As of April 1, 2017, two dollars of the per-pack tax, and an equivalent rate levied on non-cigarette tobacco products and electronic cigarettes, goes to the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund for distribution according to the provisions of Proposition 56 of 2016.

Projections of cigarette tax revenues are based on projected per capita consumption of cigarettes, population growth, and the impact from the higher smoking age as well as the increased prices due to Proposition 56. Revenue estimates for other tobacco products, which now include electronic cigarettes, also reflect recent law changes.

The cumulative effect of product price and tax increases, the increasingly restrictive environments for smokers, and anti-smoking campaigns (including state campaigns funded by Proposition 99 Tobacco Tax and Health Protection Act revenues and revenues from the Master Tobacco Settlement) have reduced cigarette consumption considerably.

Annual per capita consumption (based on population ages 18-64) was 184 packs in 1980-81, 123 packs in 1989-90, 84 packs in 1997-98, and 33 packs in 2017-18. Total tax-paid packs of cigarettes sold in 2017-18 were 669 million. In 2019-20, tax-paid packs of cigarettes sold are forecast to decline to 633 million.

Figure REV-12 shows the distribution of tobacco tax revenues to the General Fund and various special funds for 2017-18 through 2019-20.

Figure REV-12

Tobacco Tax Revenue

(Dollars in Millions)

	2017-18 Actual	2018-19 Forecast	2019-20 Forecast
General Fund	$65.3	$64.6	$62.8
Cigarette and Tobacco Products Surtax Fund	$227.0	$226.3	$223.5
Breast Cancer Fund	$13.1	$12.7	$12.4
California Children and Families First Trust Fund	$364.0	$359.5	$351.6
California Healthcare, Research and Prevention Tobacco Tax Act of 2016	$1,475.7	$1,438.0	$1,406.5
Total	**$2,145.0**	**$2,101.1**	**$2,056.9**

OTHER REVENUES

UNCLAIMED PROPERTY

The Budget reflects receipts in unclaimed property of $397 million in 2018-19 and $390 million in 2019-20. These numbers reflect ongoing efforts to maintain holder compliance with Unclaimed Property Law.

INDIAN GAMING

The Budget reflects General Fund revenues from tribal gaming of $31.3 million in 2017-18, $4.4 million in 2018-19, and $4.4 million in 2019-20. This decline reflects the approval of recent compacts which redirect payments away from the General Fund to dedicated funds.

PROPERTY TAXES

Although the property tax is a local revenue source, the amount of property tax generated each year has a substantial impact on the state budget because local property tax revenues allocated to K-14 schools generally offset General Fund expenditures.

Assessed value growth is estimated based on statistical modeling and evaluations of real estate trends. The median sales price of existing single-family homes rose by 6.9 percent in 2018, with activity in the 2018 calendar year driving fiscal year 2019-20 assessed valuations for property tax purposes. This is equivalent to the 7-percent increase in median sales prices that occurred in 2017. Although sales volumes declined slightly from 2017 to 2018, the Budget anticipates continued solid growth in property tax revenues. The demand for homes outpaces supply in many areas of the state, and employment rates and income are projected to remain strong, contributing to the willingness of prospective homebuyers to enter into the housing market.

Statewide property tax revenues are estimated to increase 6 percent in 2018-19 and 6.8 percent in 2019-20. Approximately 42 percent ($31 billion) of 2019-20 property tax revenues will go to K-14 schools. This includes $2.1 billion that schools are expected to receive in 2019-20 pursuant to the dissolution of redevelopment agencies.

SPECIAL FUND REVENUE

The California Constitution and state statutes specify into which funds certain revenues must be deposited and how they are to be spent.

Total special fund revenues, excluding transfers, are estimated to be $56.4 billion in 2019-20. Taxes and fees related to motor vehicles are expected to comprise 32.4 percent of all special fund revenue in 2019-20. The principal sources are motor vehicle fees (registration, weight, and vehicle license fees) and motor vehicle fuel taxes. During 2019-20, it is expected that about $18.3 billion in revenues will be derived from the ownership or operation of motor vehicles.

MOTOR VEHICLE FEES

Motor vehicle fees and taxes consist of vehicle license, registration, weight, driver license, and other charges related to vehicle operation. Figure REV-13 displays revenue from these sources from 2017-18 through 2019-20.

Figure REV-13

Motor Vehicle Fees Special Fund Revenue

(Dollars in Thousands)

	2017-18 Actual	2018-19 Forecast	2019-20 Forecast
Vehicle License Fees	$2,801,402	$2,909,010	$3,023,950
Registration, Weight, and Other Fees	4,948,561	5,065,550	5,238,093
Transportation Improvement Fee	799,832	1,510,000	1,549,739
Total	**$8,549,795**	**$9,484,560**	**$9,811,782**

The Vehicle License Fee (VLF) is imposed on vehicles registered in California that travel on public highways. The current VLF tax rate is 0.65 percent plus a graduated fee at $25 to $175 per vehicle. These taxes are imposed in lieu of a local personal property tax on automobiles and are administered by the Department of Motor Vehicles. The number of vehicles in the state, the ages of those vehicles, and their most recent sales price affect the amount of VLF collected. The total number of vehicles in California—autos, trucks, trailers, and motorcycles, including vehicles registered in multiple states—is estimated to be 32.4 million in 2018-19 and 32.6 million in 2019-20. The forecast projects that there will be 2.4 million new vehicles registered in both 2018-19 and 2019-20.

Beginning April 1, 2017, the base vehicle registration fee of $43 increased by $10 and is indexed to inflation. Including other fees in current law and inflation indexing, the total vehicle registration fee is expected to be $83 in 2019.

In addition to the VLF, truck owners pay a fee based on vehicle weight. Weight fee revenues are expected to be $1.2 billion in both 2018-19 and 2019-20.

MOTOR VEHICLE FUEL TAXES

The motor vehicle fuel tax (gas tax), diesel fuel tax, and use fuel tax are the major sources of funds for maintaining, replacing, and constructing state highway and transportation facilities. Over one-third of these revenues are apportioned to local jurisdictions for a broad range of local road projects, including both maintenance of existing roads and construction of new roads. In addition, some jurisdictions choose to spend a portion of their allocation on improvements to the state highway system in their region to decrease traffic congestion. Motor vehicle fuel tax collections are shown in Figure REV-14.

Figure REV-14

Motor Vehicle Fuel Tax Revenue

(Dollars in Thousands)

	2017-18 Forecast	2018-19 Forecast	2019-20 Forecast
Gasoline[1/]	$5,560,204	$6,453,557	$7,245,802
Diesel	791,552	1,201,534	1,203,791
Total	**$6,351,756**	**$7,655,091**	**$8,449,593**

[1/]Does not include jet fuel.

Gasoline consumption was flat in 2017-18 when compared to the prior fiscal year. Demand for gasoline was likely lessened in the short run by high gas prices, likely contributing to the year-over-year decline in monthly consumption during the second half of 2017-18. In the long run, continued gains in the average fuel economy of cars and trucks as well as the state's policies to reduce greenhouse gas emissions are expected to support long-term declines in gasoline consumption. Gasoline consumption is expected to decline 0.7 percent in 2018-19 and 1 percent in 2019-20.

Because most diesel fuel is consumed by the commercial trucking industry, consumption is affected most significantly by general economic conditions. Robust industrial activity contributed to an increase of 2.3 percent in diesel consumption in 2017-18. Diesel consumption is expected to decrease by 0.2 percent in 2018-19 and 2019-20.

The gas tax is collected from distributors when fuel is loaded into ground transportation for transport to retail stations. This fuel is taxed at a rate of 41.7 cents per gallon in 2018-19 and will be taxed at the rate of 47.3 cents per gallon in 2019-20.

Distributors pay the diesel fuel tax, which applies to both pure diesel fuel and blends, at the fuel terminal. The excise tax on diesel will be 36 cents per gallon for 2018-19 and 2019-20. Dyed diesel fuel, which is used for off-highway purposes such as farm equipment, is not taxed.

SUMMARY OF STATE TAX SYSTEM

The state's tax system is outlined at the end of this section in Figure REV-15.
Tax collections per capita and per $100 of personal income are displayed in Schedule 2 in the Appendix. The revenue generated from each state tax from 1970-71 through 2019-20 is displayed in Schedule 3 in the Appendix.

Figure REV-15
Outline of State Tax System as of January 1, 2019

Major Taxes and Fees	Base or Measure	Rate	Administering Agency	Fund
Alcoholic Beverage Excise Taxes				
Beer	Gallon	$0.20	Equalization	General
Distilled Spirits	Gallon	$3.30	Equalization	General
Dry Wine/Sweet Wine	Gallon	$0.20	Equalization	General
Sparkling Wine	Gallon	$0.30	Equalization	General
Hard Cider	Gallon	$0.20	Equalization	General
Corporation				
General Corporation	Net income	8.84% [1/]	Franchise	General
Bank and Financial Corp.	Net income	10.84%	Franchise	General
Alternative Minimum Tax	Alt. Taxable Income	6.65%	Franchise	General
Tobacco				
Cigarette	Package	$2.87 [2/]	Tax & Fee Admin	See below[2/]
Other Tobacco Products	Wholesale cost	62.78% [3/]	Tax & Fee Admin	See below[3/]
Insurance				
Insurers	Gross Premiums	2.35% [4/]	Insurance Dept.	General
Managed Care Organization Tax	Number of enrollees	Various [5/]	Health Care Services	Health and Human Services Special Fund
Cannabis				
Cannabis Excise	Retail Cost	15.00%	Tax & Fee Admin	Cannabis Tax Fund
Cultivation-Flower	Ounce	$9.25	Tax & Fee Admin	Cannabis Tax Fund
Cultivation-Trim	Ounce	$2.75	Tax & Fee Admin	Cannabis Tax Fund
Cultivation-Fresh Plant	Ounce	$1.29	Tax & Fee Admin	Cannabis Tax Fund
Motor Vehicle				
Vehicle License Fees (VLF)	Market value	0.65%	DMV	VLF, Local Revenue[6/]
Transportation Improvement Fee	Market value	$25-$175	DMV	Transportation
Fuel—Gasoline	Gallon	$0.417 [7/]	Tax & Fee Admin	Motor Vehicle Fuel[7/]
Fuel—Diesel	Gallon	$0.36 [8/]	Tax & Fee Admin	Motor Vehicle Fuel
Registration Fees	Vehicle	$83.00	DMV	Motor Vehicle[9/]
Weight Fees	Gross Vehicle Wt.	Various	DMV	State Highway
Personal Income	Taxable income	1.0-12.3% [10/]	Franchise	General
Proposition 63 Surcharge	Taxable income > $1 million	1.0%	Franchise	Mental Health Services
Alternative Minimum Tax	Alt. Taxable Income	7.0%	Franchise	General
Retail Sales and Use	Sales or lease of taxable	7.25% [11/]	Tax & Fee Admin	See below[11/]

[1/] Minimum Tax is $800 per year for existing corporations. New corporations are exempt for their first taxable year.

[2/]This tax is levied at the combined rate of 10 cents/pack of 20 cigarettes for the General Fund, 25 cents/pack for the Cigarette and Tobacco Products Surtax Fund, 2 cents/pack for the Breast Cancer Fund, 50 cents/pack for the California Children and Families First Trust Fund, and $2 for the California Healthcare, Research and Prevention Tobacco Tax Act of 2016. The additional $2 excise tax was effective as of April 1, 2017.

[3/]The surtax rate is determined annually by the BOE and is equivalent to the combined rate of tax applied to cigarettes, with funding for the Cigarette and Tobacco Products Surtax Fund and California Children and Families First Trust Fund. Effective July 1, 2017, through June 30, 2018, the rate is 62.78 percent of the wholesale cost.

[4/]Ocean marine insurance is taxed at the rate of 5 percent of underwriting profit attributable to California business. Special rates also apply to certain pension and profit sharing plans, surplus lines, certain health insurance, and nonadmitted insurance.

[5/]From July 1, 2016 to June 30, 2019, a tax is levied on health care plans at various rates based on enrollment in each applicable health plan using October 2014 to September 2015 data.

[6/]For return to cities and counties. Trailer coach license fees are deposited in the General Fund.

[7/]As part of SB 1 implemented beginning November 1, 2017, an add-on rate of 12 cents went into effect on top of the existing rate of 29.7 cents. Beginning in 2020 the rates will grow to keep in line with inflation.

[8/]As part of SB 1, two 10-cent add-on rates went into effect on top of the existing 16-cent rate. Beginning in 2020 these rates are indexed with inflation.

[9/]For support of State Department of Motor Vehicles, California Highway Patrol, other agencies, and motor vehicle related programs. A $10 increase was effective April 1, 2017.

[10/]Proposition 30 was passed by the California voters in November 2012. Proposition 30, for tax years 2012 through 2018, created three new income tax brackets with rates of 10.3 percent for taxable income over $250,000, 11.3 percent for taxable income over $300,000, and 12.3 percent for taxable income over $500,000. Proposition 55 was passed by the California voters in November 2016 and extended these new income tax brackets until 2030.

[11/]The 7.25-percent rate includes the rates for General Fund, Special Funds, and uniform local rates. Additionally, cities and counties may generally assess up to an additional 2.00 percent to the statewide rate.